

Board of Trustees
Consolidated Retiree Health Benefits Trust

STATEMENT OF INVESTMENT POLICY

The Board of Trustees (the "Board") adopts this policy statement as a guide to its oversight of the investment program of the Consolidated Retiree Health Benefits Trust "CRHBT"). In this regard, the Board recognizes its fiduciary responsibility to manage the CRHBT assets prudently and solely in the interest of participants and their eligible dependents and for the exclusive purpose of paying benefits and reasonable administrative expenses.

I. INVESTMENT OBJECTIVES

A. Return Requirements - The CRHBT investment portfolio will be a discretionary portfolio with a return objective of maximizing return over the long term at prudent and reasonable levels of risk. The return objective of the program emphasizes total return, favoring capital growth over current income. The following CRHBT plan characteristics justify this objective:

1. Because payouts in excess of contributions and normal income remain modest in comparison to the size of the total investment portfolio for the foreseeable future, the CRHBT portfolio does not need to produce high levels of current income.
2. Because the CRHBT is tax-exempt, there are no tax consequences relating to investment returns. Therefore it does not matter whether the CRHBT generates ordinary income versus capital gains.
3. Benefit obligations are very sensitive to inflation, specifically the rate of increase of medical costs. Thus, real returns are more important than nominal returns in establishing an investment structure to meet return requirements.
4. The goal of the CRHBT investment program is to achieve a rate of return in excess of the required return established by the Plan Administrator for actuarial purposes. While the Board is cognizant that a total return-based investment program may produce short-term periods of underperformance relative to the actuarial rate, the Board believes that a long-term investment program focused on capital growth can be developed and maintained which is expected to at least achieve, if not exceed, the actuarial rate over the long-term.

B. Risk Tolerance. The Board recognizes to achieve the Plan's return objectives requires prudent risk-taking, and that risk is the prerequisite for generating excess investment returns. Therefore the Board's policy regarding investment risk, consistent with modern portfolio theory, is that risk cannot be eliminated but should be managed, and that fiduciaries have the obligation to utilize risk efficiently. This will be accomplished by maintaining a well-diversified CRHBT portfolio by asset class, manager styles (once asset levels reach appropriate levels) and market segments, within acceptable ranges.

Because benefit obligations are long-term and the CRHBT investment program has limited liquidity or income needs, the portfolio can tolerate above-normal short-term volatility in investment returns. Although the Board recognizes that the CRHBT investment program has an above-average capacity to bear risk, the Board will set prudent and reasonable risk levels through an evaluation of the risk impact inline with comparable investment portfolios and programs. The Board also recognizes that the performance of certain segments of the CRBHT portfolio may experience greater volatility than other segments of the portfolio.

The Board will set the return and risk objectives through investment guidelines which will be well-researched and sensitive to market conditions. In addition to such guidelines, the Board will establish an asset policy.

C. Performance Measurement - The performance of the CRHBT portfolio will be measured in comparison with the return calculated on industry-recognized market indices and other relevant indices representing returns achieved by comparable investment portfolios and programs. Although the focus of the CRHBT investment program is long term, a three- to five year measurement period will be used to evaluate performance of the specific portfolios within the CRHBT.

II. INVESTMENT PROGRAM STRUCTURE

A. Standard of Care: All investments are subject to the Standard of Care as set forth in Section 33-163 of the Montgomery County Code.

A fiduciary must discharge the fiduciary's duties regarding CRHBT:

- a. *only in the best interest of the participants and their eligible dependents;*
- b. *only to provide benefits to the participants in the retiree benefit plans and to defray reasonable expenses of administering the CRHBT;*
- c. *with the care, skill, prudence, and diligence under the circumstances that a prudent person acting in a similar capacity and familiar with the same matters would use to conduct a similar enterprise with similar purposes;*
- d. *by diversifying the investments of CRHBT to minimize the risk of large losses, unless it is clearly not prudent to diversify under the circumstances;*
- e. *according to a good faith interpretation of the statutes, documents, and instruments governing CRHBT;*

B. Asset Allocation Policy

1. Policy Targets. The Board will establish asset allocation policy levels based on analysis of the CRHBT liability structure and expected market conditions over a five- to ten-year time horizon. These written policy levels will include acceptable ranges of exposure for primary asset classes.

2. Rebalancing Policy. The Board will establish a rebalancing policy that will monitor the asset class levels of the CRHBT. This written policy sets the allowable range of investment for the CRHBT asset classes and defines the actions needed when an asset class is outside the allowable range. The Board will direct the staff/manager to execute the rebalancing of assets within a reasonable time frame.

C. Authorized Investment Managers - County statute, with certain exceptions, requires that all funds in the CRHBT portfolio be managed by external investment managers who serve at the pleasure of the Board. External investment managers have full discretion over acquisitions and dispositions of investments and must adhere to guidelines set forth by the Board from time to time.

D. Investments by the Board – The Board may invest directly in any type of pooled investment vehicle, including but not limited to any combined, common or commingled trust fund, retirement or annuity contract, mutual fund, investment company, association or business trust. In addition, the Board may direct Board staff to make investments in pooled investment vehicles and transition assets from one investment manager to another investment manager.

E. Authorized Investments - Investments are not restricted by asset class or type and may include any investment deemed prudent by the Board, except as noted in Section F- below.

F. Investment Restrictions

1. Legal Prohibitions -

a. Montgomery County Bonds - County statute prohibits investment in Montgomery County and Montgomery County-related bonds unless held indirectly through a mutual fund or other pooled investment vehicle.

b. Pooled Real Estate - County statute requires that real estate investment be made only in pooled vehicles in which no more than 10% of the pool is invested in real estate located in Montgomery County.

c. Other Prohibited Transactions - County statute prohibits the Board from engaging in any transaction between the trust and the County or entity controlled by the County in which the Board does not receive appropriate compensation for any investments made or services provided.

2. Derivative Securities - The Board's policy on derivative securities is provided in an addendum to this statement. .

G. International Investing - The Board's specific policy on international investing is provided in an addendum to this statement.

H. Other Investment-Related Issues

1. Indicia of Ownership - The indicia of ownership of the CRHBT assets must be maintained within the jurisdiction of the U.S.A. courts, except as permitted by Executive Regulation.

2. Proxy Voting - As proxy voting rights are considered assets of the CRHBT, the Board recognizes its fiduciary responsibility to ensure that such rights are protected and therefore, delegates the authority to the investment managers responsible for such assets. Managers have full discretion to vote such proxies in the interest of the CRHBT, and must report voting activity to the Board on at least an annual basis

3. Fees, Commission, and Similar Expenses - A fair price will be paid for services. Transactions or trading fees paid from CRHBT assets must be only the "best execution" as determined in the sole judgment of the investment manager ordering the transaction. Full disclosure and Board approval is required if any portion of fees generated by transactions in an account produce value or income for an entity other than CRHBT. All transactions must comply with the County Code.

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May 16, 2008